# GOVERNMENT OF INDIA
# FINANCE
# LOK SABHA

STARRED QUESTION NO:572
ANSWERED ON:31.08.2001
REGULATIONS FOR NON BANKING FINANCIAL INSTITUTIONS
NEDURUMALLI JANARDHANA REDDY;SHYAMA SINGH

**Will the Minister of FINANCE be pleased to state:**

(a) whether the Government have recently announced modifications in regulations for the Non-Banking Financial Institutions;

(b)if so, the details in this regard;

(c) whether the Government have received reports on various irregularities being committed by Non-Banking Financial Institutions during the last few months;

(d) if so, the details thereof; and

(e) the extent to which the modifications by RBIin the regulations are going to check various irregularities being committed by Non-Banking Financial Institutions ?

## Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) to (e) :- A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) to (e) OF LOK SABHA STARRED QUESTION NO. 572 FOR 31.08.2001 REGARDING REGULATIONS FOR NON-BANKING FINANCIAL INSTITUTIONS TABLED BY SHRI N. JANARDHANA REDDY AND SHRIMATI SHYAMA SINGH

(a) & (b): The Reserve Bank of India (RBI)has put in place a comprehensive regulatory and supervisory framework aimed at protecting the interests of depositors and ensuring that the NBFCs function on sound and healthy lines.Recently, on 27th June, 2001 RBI issued the Guidelines for Asset-Liability Management (ALM) System in Non-Banking Financial Companies as a part of the overall system for effective risk management in their various portfolios. As per the guidelines, NBFCs, which have asset size of Rs.100.00 crore and above or public deposits of Rs.20.00 crore and above as per their balance sheet as on 31.3.2001, should put in place an ALM system which is required to be implemented by the year ending 31.3.2002.The NBFCs have been advised that it would be desirable to constitute an Asset Liability Management Committee under the charge of Chief Executive Officer or other Senior Executive with specialist members for carrying out the spadework for formalising ALM system in the institution.Effective from April 1, 2001, the ceiling on interest rates has been reduced to 14% from 16%.

(c) & (d): Generally complaints of non-repayment of deposits or non-compliance with orders of repayment passed by Company Law Board in Non-Banking Financial Companies are received by the Reserve Bank of India from time to time.

(e) : For overseeing the implementation of the provisions of the Reserve Bank of India Act, 1934 and the directions and instructions issued by RBI thereunder, RBI has put in place a strong Regulatory Framework.This includes scrutinising applications of NBFC to determine their eligibility as per the criteria enunciated in the RBI Act for issue of a Certificate of Registration,on-site inspections for ascertaining the level and quality of adherence by the entities inspected to the regulatory norms prescribed by RBI in relation to deposit taking activities, quality of assets, capital adequacy, off-site surveillance and market intelligence system. The Statutory Auditors of NBFCs have also been assigned therole of reporting directly to the Reserve Bank the irregularities, if any, noticed by them in the working of an NBFC.Moreover, Chapter III-B, III-C and V of the RBI Act were amended in 1997, vesting considerable powers with the RBI for effective supervision over Non-Banking Financial Companies to ensure that they integrate their functioning with the Indian financial system. In addition, the Financial Companies RegulationBill, 2000 was introduced in the Lok Sabha on 13th December, 2000. Hon`ble Speaker has referred this Bill to the Standing Committee on Finance. Once this Bill becomes an Act, it will further strengthen the legal framework towards affording greater protection to the interests of depositors.